

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY MEXICO

S E C R E T STATE 226466

EXDIS

FOLLOWING REPEAT CARACAS 8348 SENT ACTION STATE INFO JIDDA
TEHRAN SEP 05.

QUOTE

S E C R E T CARACAS 8348

EXDIS

FOR COOPER FROM CHARGE

ALSO PASS TREASURY FOR SOLOMON

E. O. 11652: GDS

TAGS: ENRG EFIN VE IR

SUBJECT: OPEC PRICES AND CURRENCY BASKET

REF: STATE 219928

SUMMARY. CHARGE MET WITH MINISTER OF ENERGY HERNANDEZ

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SEPTEMBER 1 AS INSTRUCTED REFTEL. HERNANDEZ SAID HE WOULD
SEEK OPPORTUNITIES DURING HIS TRAVELS IN THE NEXT FEW
WEEKS TO NOTE PUBLICLY THAT NO EXTRAORDINARY OPEC MEETING
IS NOW PLANNED AND THAT NO DECISIONS HAVE BEEN MADE ON AN
EARLY PRICE INCREASE OR TO CHANGE THE OIL PRICING MECHANISM,
BUT AT THE SAME TIME HE MADE NO COMMITMENT ON THE GOV'S
POSITION ON THESE ISSUES. HE PERSONALLY BELIVES IT WILL

BE EXTREMELY DIFFICULT TO AVOID A PRICE INCREASE IN JANUARY AND SAID HE FAVORS A SMALL INCREASE NOW AND ANOTHER SMALL RISE THEN. HE EXPRESSED CONCERN ABOUT THE INTERNAL POLITICAL EFFECTS OF SAUDI ARABIA'S "RIGID" STAND ON PRICES, ADVOCATED INCREASED BILATERAL CONTACTS BETWEEN OPEC AND INDUSTRIALIZED COUNTRY OIL MINISTERS, AND SAID THAT THE PEREZ PROPOSAL AT THE DECEMBER 1977 MEETING HAD NO SUPPORT IN OPEC. END SUMMARY.

1. THE CHARGE MET WITH MINISTER OF ENERGY AND MINES VALENTIN HERNANDEZ ACOSTA, VENEZUELA'S REPRESENTATIVE ON THE OPEC COUNCIL OF MINISTERS, THE AFTERNOON OF SEPTEMBER 1. HERNANDEZ SAID THAT EARLIER IN THE DAY HE HAD HAD A SERIES OF MEETINGS WITH THE VISITING NORWEGIAN MINES MINISTER AND ON SEPTEMBER 3 WOULD BE LEAVING CARACAS TO ATTEND AN OLADE MEETING IN MEXICO. HE THEN PLANS TO TRAVEL TO AMSTERDAM, FOLLOWED BY MEETINGS WITH UK ENERGY MINISTER BENN IN LONDON, AND RETURN TO CARACAS ABOUT SEPTEMBER 15.

2. THE CHARGE EXPLAINED USG CONCERN OVER THE CURRENT SPECULATION AND DISORDER IN WORLD FOREIGN EXCHANGE MARKETS. AFTER REVIEWING THE POINTS CONTAINED IN THE REFTEL, HE ASKED THAT THE GOV COME OUT PUBLICLY IN SUPPORT OF THE PRESENT OIL PRICING MECHANISM AND AGAINST ANY EARLY PRICE INCREASE.

3. IN REPLY, HERNANDEZ SAID THAT JUST COINCIDENTALLY HE
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HAD BEEN ASKED BY THE PRESS FOLLOWING PRESIDENT PEREZ'S MEETING WITH THE NORWEGIAN MINISTER EARLIER IN THE DAY ABOUT THE SUGGESTED SEPTEMBER OPEC MEETING. HE SAID HE TOLD THE PRESS THAT NO SUCH MEETING WAS SCHEDULED FOR NOW, BUT THAT SUCH A MEETING COULD BE CALLED AT ANY TIME.

COMMENT: LOCAL PRESS REPORTS SEPTEMBER 2 QUOTED THE MINISTER AS HAVING SAID THAT HE HAD RECEIVED NO INFORMATION REGARDING A POSSIBLE OPEC MEETING IN SEPTEMBER AND THAT NO COUNTRY HAD EXPRESSED A DESIRE FOR SUCH A MEETING, ALTHOUGH HE AND OTHER OPEC MINISTERS WERE ALWAYS READY TO MEET WHEN THE SITUATION CALLS FOR IT. END COMMENT.

4. HERNANDEZ ALSO NOTED THAT VENEZUELA HAS CONSISTENTLY SUPPORTED THE DOLLAR AND REFERRED TO A STATEMENT EARLIER IN THE WEEK BY CENTRAL BANK PRESIDENT LOSADA WHO SAID THAT VENEZUELA'S CURRENCY WOULD MAINTAIN ITS PARITY WITH THE DOLLAR FOR A LONG TIME. AGREEING THAT VENEZUELA SHARES A STRONG INTEREST IN CALMING SPECULATION AGAINST THE DOLLAR, HERNANDEZ SAID HE WOULD TRY TO FIND OPPORTUNITIES DURING HIS TRAVELS OVER THE NEXT WEEKS TO SPEAK OUT PUBLICLY TO THE EFFECT THAT NO EMERGENCY OPEC MEETING WAS PLANNED

AND THAT THERE HAS BEEN NO DECISION ON AN EARLY PRICE INCREASE OR ON A CHANGE IN THE OIL-PRICING MECHANISM.

5. HAVING SAID THIS, HOWEVER, HERNANDEZ WENT ON TO SAY THAT HE THOUGHT IT WOULD BE EXTREMELY DIFFICULT TO AVOID AT LEAST A 10 PERCENT PRICE INCREASE ON JANUARY 1. HE EXPLAINED THAT AT THIS POINT, SAUDI ARABIA IS THE ONLY OPEC MEMBER HOLDING OUT FOR NO INCREASE, AND IN HIS OPINION, THIS POSITION IS CLOSELY LINKED TO THE RESULTS OF THE FORTHCOMING ISRAELI-EGYPTIAN MEETING AT CAMP DAVID. COMMENTING ON THE RECENT STATEMENT BY PRICE FAHD REGARDING SAUDI ARABIA'S DESIRE TO HOLD THE LINE ON OIL PRICES, HERNANDEZ TOLD US, AS HE HAS BEFORE, THAT IN HIS VIEW SAUDI ARABIA'S RULERS WILL HAVE TO SHOW REALY RESULTS, E.G. PROGRESS
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IN THE MIDDLE EAST PROBLEMS, DEVELOPING FROM ITS RIGID STAND ON PRICES OR RISK THE STABILITY OF THE REGIME. HE INDICATED THAT HE WOULD PROBABLY TALK TO MINISTRY YAMANI SOMETIME OVER THE NEXT FEW WEEKS TO ASSESS THE SITUATION, POSSIBLY WHILE HE, HERNANDEZ, IS IN LONDON.

6. VENEZUELA, HERNANDEZ SAID, IS IN THE MIDDLE ON THE PRICE ISSUE, BETWEEN THE SAUDI POSITION AND THE RADICAL VIEWS OF LIBYA AND ALGERIA WHO WANT MUCH LARGER INCREASES. PERSONALLY, HE SAID, HE FAVORS A SMALL PRICE INCREASE OF 2 TO 3 PERCENT FOR THE LAST QUARTER OF 1978, FOLLOWED BY ANOTHER SMALL INCREASE IN JANUARY 1979. HE INDICATED THAT THE EARLY INCREASE WOULD REQUIRE A SPECIAL MEETING WHICH THE SAUDIS MIGHT AGREE TO IF THEY ARE NOT SATISFIED WITH THE PROGRESS MADE AT CAMP DAVID.

7. IN THE COURSE OF THE DISCUSSION MINISTER HERNANDEZ ALSO COMMENTED ON THE WORK OF THE SPECIAL OPEC MINISTERIAL COMMITTEE ESTABLISHED TO CONSIDER MEDIUM AND LONG RANGE STRATEGIES. IN HIS VIEW, ONE OF OPEC'S MAJOR OBJECTIVES OVER THE LONGER TERM SHOULD BE TO MOVE AWAY FROM ITS PRESENT POSITION OF CONFRONTATION WITH THE INDUSTRIALIZED COUNTRIES TOWARD ONE OF COOPERATION. HE CONSIDERS INCREASED BILATERAL CONTACTS BETWEEN THE INDIVIDUAL OPEC AND INDUSTRIALIZED COUNTRY ENERGY MINISTERS AS AN IMPORTANT MEANS OF MOVING TO THIS GOAL. AS EXAMPLES, HE CITED HIS MEETING THAT DAY WITH HIS NORWEGIAN COUNTERPART, THE SERIES OF MEETINGS HE HAS HAD WITH BRITISH MINISTERS, AND HIS MEETING EARLIER IN THE YEAR WITH SECRETARY SCHLESINGER. HE ALSO SAID APPROVINGLY THAT THE UNDERSTOOD ASST. SECRETARY BERGOLD MIGHT BE VISITING VENEZUELA IN THE NEAR FUTURE.

8. FINALLY, HERNANDEZ SAID THAT THE DEVELOPING COUNTRIES
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PRESENT A SPECIAL PROBLEM BECASUE THEY CONTINUE TO SEEK PREFERENTIAL TREATMENT IN THE PRICE THEY PAY FOR OIL, BUT DO VERY LITTLE TO ADJUST THEIR DEVELOPMENT PROGRAMS TO REDUCE ENERGY CONSUMPTION. REFERRING TO PRESIDENT PEREZ'S PROPOSAL AT THE DECEMBER OPEC MEETING TO CHANNEL RECEIPTS FROM HIGHER OIL PRICES TO THE DEVELOPING WORLD, HERNANDEZ SAID THIS PROPOSAL HAS NO SUPPORT WITHIN OPEC. HE DESCRIBED IT AS AN "ELEGANT" MOVE ON THE PART OF PEREZ TO PLACATE INTERNAL OPINION AND TO AVOID EMBARRASSMENT AT THE OPEC MEETING.

9. COMMENT: HERNANDEZ WAS VERY CORDIAL, AND IN GENERAL APPEARED TO BE FRANK IN HIS COMMENTS, BUT AT THE SAME TIME WAS CAREFUL TO MAKE NO COMMITMENTS REGARDING VENEZUELA'S POSITION WITH RESPECT TO A POSSIBLE MINISTERIAL MEETING BEFORE DECEMBER OR TO THE GOV'S POSITIONS DURING SUCH A MEETING. ON THE CONTRARY, HE MADE CLEAR HIS PERSONAL PREFERENCE FOR A SMALL PRICE INCREASE BEFORE DECEMBER. HIS COMMENTS ON THE PEREZ PROPOSAL (PARA 8) WERE PARTICULARLY FRANK; WHILE WE HAVE REPORTED THIS ASSESSMENT OF THE PROPOSAL BEFORE, THIS IS THE FIRST TIME WE HAVE HEARD IT FROM THE MINISTER HIMSELF. THE DEPARTMENT MAY WISH TO ALERT POSTS IN MEXICO, LONDON AND THE HAGUE REGARDING POSSIBLE STATEMENTS BY HERNANDEZ OVER THE NEXT FEW WEEKS.
CROWLEY
UNQUOTE CHRISTOPHER

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